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## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. IA-4182; 803-00223]**

### **Starwood Capital Group Management, LLC; Notice of Application**

August 26, 2015

Agency: Securities and Exchange Commission (the “SEC” or “Commission”).

Action: Notice of application for an exemptive order under section 206A of the Investment Advisers Act of 1940 (the “Advisers Act”) and rule 206(4)-5(e).

Applicant: Starwood Capital Group Management, LLC (the “Adviser” or “Applicant”).

Relevant Advisers Act Sections: Exemption requested under section 206A of the Advisers Act and rule 206(4)-5(e) from rule 206(4)-5(a)(1) under the Advisers Act.

Summary of Application: Applicant requests that the Commission issue an order under section 206A of the Advisers Act and rule 206(4)-5(e) exempting it from rule 206(4)-5(a)(1) under the Advisers Act to permit Applicant to receive compensation for investment advisory services provided to a government entity within the two-year period following a contribution by a covered associate of Applicant to an official of the government entity.

Filing Dates: The application was filed on February 3, 2014, and amended and restated on August 4, 2014, January 22, 2015, May 6, 2015, and July 24, 2015.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving Applicant with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on September 21, 2015 and should be accompanied by proof of service on Applicant, in the form of an affidavit or, for lawyers, a certificate of service. Pursuant to rule 0-5 under the Advisers Act, hearing requests should state the nature of the writer's interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Commission's Secretary.

Addresses: Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549-1090. Applicant, Starwood Capital Group Management, LLC c/o Matthew Guttin, 591 West Putnam Avenue, Greenwich, CT 06830.

For Further Information Contact: Parisa Haghshenas, Senior Counsel, at (202) 551-6723, or Holly Hunter-Ceci, Branch Chief, at (202) 551-6825 (Division of Investment Management, Chief Counsel's Office).

Supplementary Information: The following is a summary of the application. The complete application may be obtained via the Commission's website either at <http://www.sec.gov/rules/iareleases.shtml> or by searching for the file number, or for an applicant using the Company name box, at <http://www.sec.gov/search/search.htm>, or by calling (202) 551-8090.

The Applicant's Representations:

1. Starwood Capital Group Management, LLC is registered with the Commission as an investment adviser under the Advisers Act. Three of the Applicant's discretionary advisory

clients are funds excluded from the definition of an investment company by section 3(c)(7) of the Investment Company Act of 1940 (the “Funds”).

2. One of the investors in the Funds is a public pension plan that is a government entity with respect to the State of Illinois (the “Client”). The investment decisions for the Client are overseen by a board of 13 trustees that includes six individuals appointed by the Governor of Illinois. Due to this power of appointment, a private citizen running for Governor of Illinois is an “official” of the Client as defined in rule 206(4)-5 under the Advisers Act.

3. On April 29, 2013, Daniel Yih, the Applicant’s Chief Operating Officer (the “Contributor”), contributed \$1,000 to the Bruce Rauner Exploratory Committee, a committee to support the candidacy of Bruce Rauner (the “Official”) for Illinois Governor (the “Contribution”). The Applicant represents that apart from that single contribution (and requesting its return), the Contributor did not interact with the Official about campaign contributions and did not solicit the Client or otherwise communicate with the Client or supervise anyone who solicited the Client. The Applicant further represents that the Contributor did not solicit any persons to make contributions to the Official’s campaign or coordinate any such contributions.

4. The Applicant represents that the Official and the Contributor have a long-standing personal and professional relationship. The Applicant represents that they used to work together at the private-equity firm GTCR Golder Rauner. The Applicant further represents that they were previously neighbors and their children attend school together and are friends. At the time of the Contribution, the Official was a private citizen; he did not take office until January 2015. The Applicant represents that the Official and the Contributor have not discussed Starwood’s investment advisory business or potential investments by the Client, except that the

Contributor explained rule 206(4)-5's implications when requesting the Official refund the Contribution.

5. The Client's initial investment in the Funds predates the Contribution. Although the Client has made additional investments subsequent to the Contribution, they were all made prior to the Official taking office and after the Contribution was fully refunded. The Applicant represents that the Contributor was not involved in soliciting the Client and did not solicit or otherwise communicate with the Client on behalf of the Adviser with respect to the Client's initial or subsequent investments.

6. The Applicant represents that five days after making the Contribution, the Contributor realized that pursuant to Adviser's Pay-to-Play Policy (the "Policy"), he was required to obtain pre-approval for his political contributions. The Applicant further represents that he contacted the Adviser's Chief Compliance Officer that night (Saturday, May 4, 2013) and the Chief Compliance Officer responded on Monday, May 6 that the Contribution was prohibited under the Adviser's compliance policy and rule 206(4)-5 and would need to be refunded. The Applicant represents that the Contributor requested a refund of the full \$1,000 that day, and received the refund the next day. The Applicant represents that at no time did any employees of the Applicant other than the Contributor have any knowledge of the Contribution prior to the Contributor's notifying the Applicant's Chief Compliance Officer five days after the date of the Contribution.

7. The Applicant represents that the Adviser established an escrow account into which it has been depositing an amount equal to the compensation received with respect to the Client's investment in the Funds for the two-year period starting April 29, 2013. Since the Contribution Date, the Applicant represents that there have been no distributions of carried

interest from the Funds; however, to the extent any distributions of carried interest in respect to the Client's investments are to be paid to the Adviser in the future and the Commission has not granted an exemptive order to the Adviser, the portion of that carried interest attributable to investments of the Client during the two-year period following the Contribution Date will be placed in escrow. The Applicant represents that it notified the Client of the Contribution and the application prior to the filing of the second amendment to the application.

8. The Applicant represents that the Adviser's Policy was initially adopted and implemented on February 1, 2008, prior to the effective date of rule 206(4)-5, to ensure compliance with state and local pay-to-play laws. It was revised in light of rule 206(4)-5 and has been in place in its current form since the effective date of the rule. The Applicant represents that the Policy is more restrictive than what was contemplated by the rule. The Applicant represents that the Contributor simply temporarily failed to seek preclearance for the Contribution and realized his error five days later. The Applicant represents that after the Contribution, it sent a reminder of the Policy to all employees.

#### The Applicant's Legal Analysis

1. Rule 206(4)-5(a)(1) under the Advisers Act prohibits a registered investment adviser from providing investment advisory services for compensation to a government entity within two years after a contribution to an official of the government entity is made by the investment adviser or any covered associate of the investment adviser. The Client is a government entity, as defined in rule 206(4)-5(f)(5), the Contributor is a "covered associate" as defined in rule 206(4)-5(f)(2), and the Official is an "official" as defined in rule 206(4)-5(f)(6). Rule 206(4)-5(c) provides that when a government entity invests in a covered investment pool, the investment adviser to that covered investment pool is treated as providing advisory services

directly to the government entity. The Funds are “covered investment” pools as defined in rule 206(4)-5(f)(3)(ii).

2. Section 206A of the Advisers Act grants the Commission the authority to “conditionally or unconditionally exempt any person or transaction . . . from any provision or provisions of [the Advisers Act] or of any rule or regulation thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of [the Advisers Act].”

3. Rule 206(4)-5(e) provides that the Commission may exempt an investment adviser from the prohibition under rule 206(4)-5(a)(1) upon consideration of, among other factors, (i) Whether the exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Advisers Act; (ii) Whether the investment adviser: (A) before the contribution resulting in the prohibition was made, adopted and implemented policies and procedures reasonably designed to prevent violations of the rule; and (B) prior to or at the time the contribution which resulted in such prohibition was made, had no actual knowledge of the contribution; and (C) after learning of the contribution: (1) has taken all available steps to cause the contributor involved in making the contribution which resulted in such prohibition to obtain a return of the contribution; and (2) has taken such other remedial or preventive measures as may be appropriate under the circumstances; (iii) Whether, at the time of the contribution, the contributor was a covered associate or otherwise an employee of the investment adviser, or was seeking such employment; (iv) The timing and amount of the contribution which resulted in the prohibition; (v) The nature of the election (e.g., federal, state or local); and (vi) The contributor’s

apparent intent or motive in making the contribution which resulted in the prohibition, as evidenced by the facts and circumstances surrounding such contribution.

4. The Applicant requests an order pursuant to section 206A and rule 206(4)-5(e), exempting it from the two-year prohibition on compensation imposed by rule 206(4)-5(a)(1) with respect to investment advisory services provided to the Client following the Contribution. The Applicant asserts that the exemption sought is necessary and appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Advisers Act.

5. The Applicant maintains that the timing of the Contribution, at the time of the Contribution the Official's not having the authority to appoint anyone who participated in the Client's decision to invest with the Adviser, and the length of time in which the Contributor obtained a refund from the Official indicate that the Contribution was not part of any *quid pro quo* arrangement, but rather an inadvertent failure to follow the Adviser's Policy by the Contributor.

6. The Applicant states that the Client determined to invest with Applicant and established an advisory relationship on an arm's length basis free from any improper influence as a result of the Contribution. In support of this argument, Applicant notes that the Client's relationship with the Applicant pre-dates the Contribution. Furthermore, the Client's subsequent investments were made after the Contribution was refunded and the Official had no role in the Client's subsequent investments, and he did not take office, had not been elected, nor obtained appointment power until 2015. Similarly, the Applicant represents that the Contributor did not solicit the Client with respect to the subsequent investments, nor did anyone whom he

supervises. The Applicant respectfully submits that the interests of the Client are best served by allowing the Applicant and the Client to continue their relationship uninterrupted.

7. The Applicant submits that the Contributor's decision to make the Contribution to the Official's committee was based on the personal and professional relationship between the two men and not any desire to influence with the Client's merit-based selection process for advisory services.

8. The Applicant contends that although the Applicant's Policy required the Contributor to obtain prior approval for the Contribution, which he failed to do, the Contributor realized his error in less than a week. The Applicant further maintains that at the Contributor's request, the Contribution was refunded within nine days of the date it was made. The Contribution's discovery and refund were well within the time period required for an automatic exemption pursuant to rule 206(4)-5(b)(3).

9. Applicant further submits that the other factors set forth in rule 206(4)-5(e) similarly weigh in favor of granting an exemption to the Applicant to avoid consequences disproportionate to the violation.

10. Accordingly, the Applicant respectfully submits that the interests of investors and the purposes of the Advisers Act are best served in this instance by allowing the Adviser and its Client to continue their relationship uninterrupted in the absence of any intent or action by the Contributor to interfere with the Client's merit-based process for the selection and retention of advisory services. The Applicant submits that an exemption from the two-year prohibition on compensation is necessary and appropriate in the public interest and consistent with the

protection of investors and the purposes fairly intended by the policy and provisions of the Advisers Act.

For the Commission, by the Division of Investment Management, under delegated authority.

Robert W. Errett  
Deputy Secretary

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